

31 OCT 2023

Fitch Affirms ING Groep NV at 'A+'; Outlook Stable

Fitch Ratings - Warsaw - 31 Oct 2023: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDRs) of ING Groep N.V. (ING) at 'A+' and of ING Bank N.V. (ING Bank) at 'AA-'. The Outlooks are Stable. Fitch has also affirmed ING's and ING Bank's Viability Ratings (VRs) at 'a+'.

A full list of rating actions is below.

Key Rating Drivers

Leading Benelux Franchise, International Footprint: ING's ratings are driven by the group's strong franchise in retail and wholesale banking in the Benelux region. Its stable and diversified universal banking business model, good pricing power and geographic diversification in neighbouring countries and in strong and stable economies, underpin the bank's credit profile. The ratings are also supported by a well-balanced funding profile.

Sound Financial Profile: ING's moderate risk appetite results in sound through-the-cycle asset quality and earnings. Its retail focus and limited exposure to capital market activities result in sound and recurrent revenue generation. The ratings also reflect the bank's current sound capitalisation as well as its medium-term common equity Tier 1 (CET1) capital target, which is low compared with similarly rated peers.

Ratings Reflect Consolidated Group: Fitch assesses the group on a consolidated basis, as ING Bank, the group's main operating company, is ING's only significant asset, and the failure risk of the two entities is substantially the same. ING acts as the holding company for the group and its VR is equalised with ING Bank's VR. The group is regulated on a consolidated basis, there is no double leverage at the holding company level, and liquidity is managed centrally. We view the fungibility of capital between the holding company and the bank as high.

Moderate Risk Appetite: ING's moderate risk appetite is supported by sound and conservative underwriting standards focused on secured lending, centralised credit and market risk controls. Exposure related to cyclical industries and volatile countries are well managed and to date have resulted in low impaired loans.

Sound Asset Quality: ING's low-risk business model, sound underwriting and well-diversified and secured lending underpin its sound asset quality. The gross impaired loans ratio has been consistently below that of large Dutch peers, and has proven resilient through previous credit cycles. Fitch expects impaired loans to increase, but from a sound starting point, given the weaker economic environment affecting mainly SME and corporate borrowers. We expect the impaired loans ratio to increase modestly above 2% at end-2024, which would still be lower than European average.

Business Profile Generates Sound Earnings: ING's sound earnings generation reflects its strong franchise in retail and corporate banking in the Benelux region, limited exposure to volatile businesses, and diversification into selected markets with growth potential. Given the benefits of higher interest rates, we expect operating profit/risk-weighted assets (RWAs) to peak in 2023 to well above 2% and to subsequently stabilise moderately above 2% in the next two years, reflecting modest lending growth, muted commission income growth, rising loan impairment charges, some cost inflation and interest rates reducing from 2024.

Sound CET1 Ratio to Reduce: We expect ING to gradually steer its CET1 ratio towards its target of around 12.5% by 2025 (under Basel III end-game rules) through further capital distributions, which is a lower level than most other 'a+' rated peers. Despite this, the group's risk-weighted capital ratios are underpinned by sound and regular profit generation. The CET1 ratio was still reasonably high at 14.9% at end-June 2023, having increased by 40bp since end-2022 on the back of internal capital generation, RWA reductions in wholesale banking, and further reduced Russian exposure. This more than offsets a EUR1.5 billion buyback that started in 2Q23.

Stable Funding Profile: The group's funding profile reflects strong deposit franchises in some deposit-rich jurisdictions, such as Belgium and Germany. Its wholesale funding maturities are reasonably spread out, and the group's ample buffer of high-quality liquid assets further mitigates refinancing risk.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

We could downgrade ING Bank's and ING's ratings if there was a material deterioration in asset quality with the impaired loans ratio increasing above 3% over a prolonged period, or if the operating profit/RWAs ratio durably declines below 2%. Rating pressure would also arise if the group decided to operate with a lower CET1 ratio than that targeted in the absence of much stronger operating profitability.

An adverse change in ING's risk appetite could be negative for the ratings. This could occur, for example, if the contribution of more volatile activities or countries with lower-rated operating environments to ING's earnings grows rapidly, outpacing the contribution of highly-rated operating environments.

ING's IDRs and VR could also be downgraded in case of a significant build-up of double leverage at the holding company, although this is not Fitch's expectation.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of both entities' ratings is unlikely in the short term, and would require a material improvement in the group's business profile from higher business diversification and enhanced franchises in mature markets outside Benelux, which would lead to further improvement in profitability, coupled with stronger asset quality and capitalisation metrics in line with 'aa' category assessments under Fitch's criteria.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

ING Bank's Long-Term IDR and senior unsecured debt are rated one notch above the bank's VR, since Fitch believes the risk of default on senior obligations, as measured by the Long-Term IDR, is lower than the risk of the bank failing, as measured by its VR. Fitch believes the bank's external senior creditors benefit from resolution funds ultimately raised by the holding company and designated to protect ING Bank's creditors in a group failure scenario.

The one-notch uplift reflects the bank's significant and sustainable buffer of junior debt that could be made available to protect its senior third-party creditors from default in case of failure, either in resolution or as part of a private sector solution (i.e. distressed debt exchange).

We expect the buffer to be sustainable. Our expectation is based on ING's need to maintain compliance with its end-state minimum requirement for own funds and eligible liabilities (MREL) of 28.7% (including 5.50% combined buffer requirement) of RWAs starting 1 January 2024. The group has adopted a single-point-of-entry resolution strategy, and ING Groep N.V. is the resolution entity. All MREL instruments, including senior unsecured debt, are issued by the holding company and downstreamed to ING Bank as junior ranking instruments to third-party senior debt.

ING Bank's Short-Term IDR of 'F1+' is the only option mapping to a 'AA-' Long-Term IDR.

ING Bank's long-term and short-term deposit ratings are at 'AA-' and 'F1+' as deposits rank pari passu with senior preferred debt and derivatives claims in the Netherlands.

The Derivative Counterparty Ratings (DCRs) of ING Bank and ING are at the same level as the entities' Long-Term IDRs because under Dutch legislation, derivative counterparties have no definitive preferential status over other senior obligations in resolution.

The subordinated Tier 2 debt securities issued by ING are notched down twice from its VR, reflecting baseline notching for this type of debt under Fitch's criteria.

Additional Tier 1 (AT1) instruments issued by ING are rated four notches below its VR. The notching reflects poor recoveries of these securities given their deep subordination (two notches) as well as incremental risk of nonperformance relative to the VR due to fully discretionary coupons (two notches). Our assessment is based on the bank operating with a CET1 ratio that is comfortably above maximum distributable amount thresholds and our expectation that this will continue.

Government Support Ratings (GSRs)

ING's and ING Bank's GSRs of 'No Support' reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that ING or ING Bank becomes non-viable. The EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that requires senior creditors participating in losses, if necessary, instead of, or ahead of, a bank receiving sovereign support.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

ING's and ING Bank's Short-Term IDRs are primarily sensitive to the Long-Term IDRs and to the funding and liquidity score.

ING Bank's and ING's senior debt ratings and ING Bank's deposit ratings are primarily sensitive to changes in the IDRs. In addition, ING Bank's and ING's DCRs could be upgraded in case of a change in legislation giving preference to derivative counterparties over senior obligation in a resolution scenario.

The ratings of ING 's subordinated Tier 2 debt and AT1 instruments are sensitive to changes in the VR.

In addition, the ratings of ING's AT1 instruments could also be downgraded if we see a heightened risk that capital cushions above the mandatory coupon omission triggers could fall below 100bp. The ratings of the AT1 securities are also sensitive to changes in Fitch's assessment of the probability of the notes' non-performance risk relative to the risk captured by ING's VR.

An upgrade of the GSR would require a higher propensity of sovereign support. While not impossible, the BRRD makes this highly unlikely.

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

ING Financial Markets LLC's (INGFM) Short-Term IDR of 'F1+' is equalised with that of its parent, ING Bank, because in Fitch's view, there is an extremely high probability of extraordinary support from ING Bank, if required. INGFM is a broker based in the US and offers various financial services for ING Bank's corporate and institutional clients.

Fitch believes ING Bank has a strong willingness to provide support to INGFM because a default of INGFM would entail considerable reputational risk for the parent, given the single point-of-entry resolution group. We also take into consideration INGFM's high integration with the parent and INGFM's strategic importance as part of ING Bank's international wholesale-banking franchise.

In our opinion, any required support for INGFM would most likely be immaterial relative to its parent's ability to provide it. INGFM accounted for about 3% of ING Bank's total assets and equity at end-2022.

In the support assessment, we use ING Bank's Long-Term IDR (one notch above its VR of 'a+' due to a significant and sustainable buffer of junior debt) as the anchor rating in assessing its ability to support its US subsidiary. We believe that INGFM's senior creditors could benefit from junior debt buffers raised by its parent. This is because INGFM is included in the single-point-of-entry resolution strategy for ING.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

INGFM's Short-Term IDR is sensitive to ING Bank's Short-Term IDR. It is also sensitive to adverse changes in our assessment of ING Bank's propensity to support its US subsidiary, which we do not expect in the medium term. As the Short-Term IDR is at the highest possible level, it cannot be upgraded.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

INGFM's Short-Term IDR is driven by support available from ING Bank.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
ING Financial Markets LLC	ST IDR	F1+	Affirmed	F1+
ING Groep N.V.	LT IDR	A+ 	Affirmed	A+ 
	ST IDR	F1	Affirmed	F1
	Viability	a+	Affirmed	a+
	DCR	A+(dcr)	Affirmed	A+(dcr)
	Government Support	ns	Affirmed	ns
	• senior unsecured ^{LT}	A+	Affirmed	A+
	• subordinated	A-	Affirmed	A-
	• subordinated	BBB	Affirmed	BBB
	• senior unsecured ST	F1	Affirmed	F1
ING Bank N.V.	LT IDR	AA- 	Affirmed	AA- 
	ST IDR	F1+	Affirmed	F1+
	Viability	a+	Affirmed	a+

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
	DCR	AA-(dcr)	Affirmed	AA-(dcr)
	Government Support	ns	Affirmed	ns
• senior unsecured ^{LT}	AA-	Affirmed		AA-
• long-term deposits ^{LT}	AA-	Affirmed		AA-
• senior unsecured ST	F1+	Affirmed		F1+
• short-term deposits ST	F1+	Affirmed		F1+

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◇
NEGATIVE	⊖	◇
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub.05 May 2023\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

Solicitation Status

Endorsement Status

ING Financial Markets LLC EU Issued, UK Endorsed

ING Groep N.V. EU Issued, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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